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Section 1

Introduction

1.0 Introduction

1.1 This document sets out the Ground Rules for the construction and management of the FTSE4Good Environmental Leaders Europe 40 Index. Much of the governance and methodology is drawn from the FTSE4Good Index Series and as such this methodology is to be read in conjunction with the FTSE4Good Index Series Ground Rules which are available at www.ftserussell.com.

1.2 The FTSE4Good Environmental Leaders Europe 40 Index has been designed to identify the top 40 European companies with leading environmental practices. These are the companies that are doing more to manage their environmental risks and impacts whilst reducing their environmental footprint.

1.3 The FTSE4Good Environmental Leaders Europe 40 Capital Index is calculated in Euro on a real time basis.

1.4 Capital and Total Return Indexes are available on an end of day basis in Euro, USD, GBP and JPY.

1.5 The base value for the Capital and Total Return indexes is 5000 as at 29 June 2001.

1.6 FTSE Russell


1.7 IOSCO

1.7.1 FTSE considers that the FTSE4Good Environmental Leaders Europe 40 Index meets the IOSCO Principles for Financial Benchmarks as published in July 2013.

Full details can be accessed at www.iosco.org.

Details of FTSE Russell’s Statement of Compliance with respect to the IOSCO Principles can be accessed using the following link:

IOSCO Statement of Compliance.

1.8 FTSE Russell hereby notifies users of the index that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation, of the index and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.
1.9 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index’s rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation of the Index or any constituent data.
Section 2

Management Responsibilities

2.0 Management Responsibilities

2.1 FTSE is the benchmark administrator of the index.¹

2.2 FTSE is responsible for the daily calculation, production and operation of the FTSE4Good Environmental Leaders Europe 40 Index and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indexes.

2.3 FTSE Russell ESG Advisory Committee

2.3.1 To assist in the oversight of the FTSE4Good Index Series FTSE has established the FTSE Russell ESG Advisory Committee (the “Committee”). The membership of the Committee includes independent investment professionals experienced in environmental, social and governance factors.

2.3.2 The Committee is responsible for providing guidance on the development of the criteria and the construction of the FTSE ESG ratings and ESG indexes including the FTSE4Good Index Series.

2.3.3 The Terms of Reference of the FTSE Russell ESG Advisory Committee are set out on the FTSE Russell website and can be accessed using the following link:

FTSE_Russell_ESG_Advisory_Committee.pdf

2.4 Amendments to these Ground Rules

2.4.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they continue to best reflect the aims of the index series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Product Governance Board before approval is granted.

¹ The term administrator is used in this document in the same sense as it is defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation).
2.4.2 As provided for in the Statement of Principles for FTSE Russell Equity Indexes, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Ground Rules should subsequently be updated to provide greater clarity.
Section 3

FTSE Russell Index Policies

3.0 FTSE Russell Index Policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

3.1 Statement of Principles for FTSE Russell Equity Indexes (the Statement of Principles)

Indexes need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell’s approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Product Governance Board.

The Statement of Principles can be accessed using the following link:


3.2 Queries, Complaints and Appeals

A constituent or prospective constituent company (or professional advisor acting on behalf of the company), a national organisation or a group of no fewer than ten users of the Indexes from different organisations acting in their professional capacity may appeal against decisions taken by FTSE Russell.

FTSE Russell’s complaints procedure can be accessed using the following link:

Benchmark_Determination_Complaints_Handling_Policy.pdf

FTSE Russell’s Appeal Process can be accessed using the following link:

Appeals_Against_Decisions.pdf

3.3 Recalculation Policy and Guidelines

3.3.1 The FTSE4Good Index Series are recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE4Good Index Series are notified through appropriate media.
For further information refer to the FTSE Russell Recalculation Policy and Guidelines document which is available from the FTSE Russell website using the link below or by contacting info@ftserussell.com.

Recalculation Policy and Guidelines – ESG Data and Ratings

3.4 Recalculation Policy and Guidelines – ESG Data and Ratings

3.4.1 Where an inaccuracy in an ESG data product is identified, FTSE Russell will follow the guidelines set out in this document when determining if an ESG Data Product should be recalculated.

Recalculation Policy and Guidelines ESG Products.pdf

3.5 Index Policy for Trading Halts and Market Closures

3.5.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

Index Policy for Trading Halts and Market Closures.pdf

3.6 Index Policy in the Event Clients are Unable to Trade a Market

3.6.1 Details of FTSE Russell's treatment can be accessed using the following link:

Index Policy in the Event Clients are Unable to Trade a Market.pdf

3.7 Policy for Benchmark Methodology Changes

3.7.1 Details of FTSE Russell’s policy for making benchmark methodology changes can be accessed using the following link:

Policy for Benchmark Methodology Changes.pdf
Section 4

Eligible Companies

4.0 Eligible Companies

4.1 The FTSE4Good Environmental Leaders Europe 40 Index is based on the European constituents of the FTSE4Good Index Series.

4.2 For more information regarding the eligible universe please refer to the FTSE4Good Index Series Ground Rules.
Section 5

Index Qualification Criteria and Periodic Review of Constituents

5.0 Index Qualification Criteria and Periodic Review of Constituents

5.1 Review Dates

5.1.1 The Index will be reviewed semi-annually in June and December using data as at the close of business on the Monday 4 weeks prior to the review effective date.

5.1.2 The semi-annual review and capping will be implemented after the close of business on the third Friday (i.e. effective Monday) of June and December, in-line with the FTSE4Good Index Series.

5.1.3 Details of the outcome of the semi-annual review will be announced as soon as possible after the semi-annual FTSE ESG Advisory Committee meeting has concluded.

5.2 Review Process

5.2.1 The constituents of the index will be selected from the FTSE4Good Europe Index subject to the FTSE ESG Ratings Methodology and full market capitalisation as detailed below. All European FTSE4Good Index Series constituents are assigned an Environmental Pillar Score between 0 and 5 and only the companies that have an Environmental Pillar Score of 4 or above will be selected (subject to Rule 5.3.4). They are then ranked by full market capitalisation and the top 40 companies will be selected as constituents of the index. If for any reason 40 companies are not available, then a number lower than 40 may be included, (i.e. there is a maximum of 40).

5.3 Buffers

5.3.1 Buffers are implemented when reviewing the Index to provide stability and reduce turnover. The objective of buffers is to exclude or include those constituents which have risen or fallen significantly.

5.3.2 A company will be included in the Index if it is the 35th position or above when companies are ranked by full market capitalisation.

5.3.3 A company will be excluded from the Index if it is the 46th position or below when companies are ranked by full market capitalisation.

5.3.4 Environmental Rating Buffer: If at a review a constituent company of the FTSE4Good Environmental Leaders Europe 40 Index receives an Environmental Pillar Score below 4 they will remain in the index if they received a rating of 4 or above at the previous review. Therefore those constituent companies that receive an environmental rating below 4 in two consecutive reviews will be deleted.
5.4 **Reserve List**

5.4.1 A reserve list will be maintained for the FTSE4Good Environmental Leaders Europe 40 Index. The reserve list will contain the ten highest ranking non-constituents where available. The reserve list will be used in the event that one or more constituents are deleted from FTSE4Good Environmental Leaders Europe 40 Index during the period up to the next semi-annual review. FTSE Russell will make available the ten highest ranking non-constituents. If the eligible universe has less than 50 stocks than the reserve list will have less than 10 stocks. If the eligible universe has equal or less than 40 stocks than there will be no reserve list.

5.5 **Capping Dates**

5.5.1 At the semi-annual review, the constituents of the FTSE4Good Environmental Leaders Europe 40 Index are capped using prices adjusted for corporate actions as at the close of business on the second Friday in June and December. The capping is implemented after close of business on the third Friday in June and December based on the constituents, shares in issue and free float on the next trading day following the third Friday of the review month.

5.6 **Capping Methodology**

5.6.1 Any constituent whose weight is greater than 10% of the index will be capped at 10%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.
Section 6

Changes to Constituent Companies

6.0 Changes to Constituent Companies

6.1 Intra-review additions and deletions

6.1.1 When a constituent is added to the underlying universe (Section 4), it will only be considered for inclusion at the next semi-annual review. For more information regarding new issues intra-review please refer to the FTSE4Good Index Series Ground Rules.

6.1.2 If a constituent of the FTSE4Good Environmental Leaders Europe 40 Index ceases to be a constituent of the FTSE4Good Index Series it will be removed from the FTSE4Good Environmental Leaders Europe 40 Index. The constituent will be replaced by the highest ranking company in the reserve list by full market capitalisation two days prior to the event being implemented.

6.2 Mergers and Takeovers

6.2.1 If a constituent is acquired by a non-constituent, the company will be removed from the FTSE4Good Environmental Leaders Europe 40 Index and the highest ranking company by full market capitalisation will be added from the reserve list two days prior to the event being implemented.

6.2.2 Where two index constituents merge, or one index constituent is acquired by another constituent, the resulting new company will be eligible for inclusion in the FTSE4Good Environmental Leaders Europe 40 Index and the highest ranking eligible reserve list company will be added to the index two days prior to the event being implemented.

6.2.3 In the case of a constituent taken over by a non-constituent, the resultant entity will not be eligible for inclusion in the FTSE4Good Environmental Leaders Europe 40 Index, unless it was a member of the eligible universe at the last period review. The eligibility of the resultant entity will be assessed in full at the next semi-annual review. If such an event occurs in a FTSE4Good Environmental Leaders Europe 40 Index, the highest ranking eligible reserve list company will be added to the index.

6.3 Spin-off

6.3.1 If an index constituent has a complex reorganisation or demerger, the newly spun-off company will remain eligible for inclusion into the index as long as it remains a constituent in the FTSE4Good Europe Index. The eligibility of the resulting companies will be assessed in full at the next semi-annual review.
6.4 **Suspended Companies**

6.4.1 FTSE Russell’s treatment can be found using the following link:

[Suspended_Compaines_Rule.pdf](Suspended_Compaines_Rule.pdf)

6.4.2 A deleted constituent will be replaced by the highest ranking company in the reserve list by full market capitalisation two days prior to the event being implemented.
Appendix A: Further Information

A Glossary of Terms used in FTSE Russell’s Ground Rule documents can be found using the following link:

Glossary.pdf

Further information on the FTSE4Good Environmental Leaders Europe 40 Index is available from FTSE Russell or on the website www.ftserussell.com.